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ABSTRACT

Grameen Banks are a model of successful support for the smallest businesses. The Grameen Bank began in 1976, when Muhammad Yunus, an economics professor at Chittagong University in southern Bangladesh, loaned Sufiya Khatun, a weaver of bamboo stools, $4 U.S. to buy supplies and raise her daily profit from 2 cents to $1.25. Her success prompted him, with help from his students, to set up a bank. Since the first loan, Grameen has grown to employ 14,000 staff in 35,000 villages in Bangladesh. In 1996 it provided 3.62 million loans with the average loan size of about $100 U.S., with a default rate of less than one-half of one percent. Six principles guide the bank: (1) it lends only to the poorest people; (2) women are the primary recipients; (3) loans are made without collateral; (4) borrowers control what business activity the loan will be used for; (5) the bank supports the borrower with training programs and incentives for saving; and (6) borrowers pay as little interest as necessary to keep the bank self-supporting. There are Grameen Bank replications in 30 countries, including the United States. The most well-established is ACCION International, originally founded in 1961 to aid Latin America. ACCION has six associate organizations in the United States (New York, Albuquerque, Chicago, San Antonio, San Diego, and El Paso), which function similarly to the Grameen Bank. By 2000, they hope to lend $50 million to more than 8,000 microentrepreneurs, creating or stabilizing 10,000 jobs, and then to expand to other U.S. cities. More than two dozen other projects based on the Grameen Bank are also operating in the United States. All are helping to eradicate poverty at the grassroots level and provide entrepreneurial opportunities to the poor. (16 references) (KC)

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Digest

July 18, 1997 **DIGEST Number 97-6**

Grameen Banks

By Elizabeth Foote

According to *Fortune* magazine, entrepreneurship is the key to job creation in the United States (Magnet, 1988). But how can people too poor to be considered good risks by traditional banks participate? Grameen Banks are a model of successful support for the smallest businesses. This digest looks at the history of Grameen Banks, discusses how the model has been applied in the United States, and lists sources for more information.

History

The Grameen Bank began in 1976, when Muhammad Yunus, an economics professor at Chittagong University in southern Bangladesh, met Sufiya Khatun, a weaver of bamboo stools and one of Bangladesh's 55 million landless peasants. She needed a loan of U.S. $4.00 to buy supplies and raise her daily profit from two cents to $1.25. He loaned her the money. Her success prompted him, with help from his students, to set up a bank.

Since the first loan, Grameen (whose name means 'rural' in Bengali) has grown to employ 14,000 staff in 35,000 villages in Bangladesh. In 1996 it provided 3.62 million loans with the average loan size of about U.S. $100.00. The default rate is less than one-half of one percent ("The Grameen Bank Today", n.d.). They still adhere to the six principles of the loan:

- they lend to only to the poorest people;
- women are the primary recipients (94% of their customers are female);
- the loans are made without collateral;
- the borrower controls what business activity the loan will be used for;
- the bank supports the borrower with training programs and incentives for saving;
- borrowers pay as little interest as possible to keep the bank self-supporting.

The Grameen Bank is structured unlike any other bank. A bank unit, covering an area of 15 to 22 villages is set up with a field manager and staff. The staff visits the villages to learn about the local milieu and to explain the purpose and mode of bank operation to prospective clients. Groups of five prospective borrowers are formed with only two of them eligible for the first loans, which must be paid off over 50 weeks. The groups meet weekly to discuss business concerns and offer support. Borrowers are required to start a savings account and contribute regularly to it. After the first two borrowers repay the loans, two more members are eligible. Peer pressure helps to keep the default rate low.

The Grameen Bank provides more than just money. The bank holds workshops on health care, nutrition, family planning, and business opportunities. Members agree to observe the Sixteen Decisions, pledging to keep their families small, drink clean water, keep their dwellings in good repair, plant vegetables and seedlings, and to follow the four principles of the Bank: discipline, unity, courage, and hard work (Bornstein, 1996). More than 153,00 low-cost, tin roofed houses have been financed with their home loan program (Kamaluddin, n.d.). They are also experimenting with a Medicare scheme that will provide health care that costs U.S.$1.25 per family per year. Their social development agenda aims to improve the overall quality of life of their members.

Grameen Bank Replications in the United States

There are Grameen Bank replications in 30 countries, including the United States (Kamaluddin, n.d.). The most well-established is ACCION International. Originally founded in 1961 to aid Latin America, ACCION has opened six associate organizations in the United States: New York (1991), Albuquerque, Chicago, San Antonio, San Diego (1994), and El Paso (1996). Just like the Grameen Bank, they offer loans and business support to micro entrepreneurs who lack access to conventional credit. In lieu of collateral, borrowers form 'solidarity groups' of three to six people to receive and repay loans and offer social support. ACCION's three central goals are:

- to reach a significant percentage of the micro entrepreneurs in need of assistance.

- to achieve financial self-sufficiency within five to seven years.
- to maintain a high quality loan portfolio, to demonstrate that micro entrepreneurs can and will pay back their loans.

By 2000, they hope to lend $50 million to more than 8,000 micro entrepreneurs, creating or stabilizing 10,000 jobs. After they have achieved self-sufficiency, they will expand to other U.S. cities ("ACCION U.S. Programs", n.d.).

Based in inner-city Chicago, the Full Circle Fund, a part of the Women's Self-Employment Project, was founded in 1988. They have kept the basic Grameen group structure and lending methodology with a few alterations (groups meet fortnightly instead of weekly, savings are voluntary, and loans are distributed by check instead of cash). After a difficult beginning, their staff, membership, and loan portfolio have all grown (Counts, 1996).

In addition, over two dozen projects based on the Grameen model are operating in the United States. The Good Faith Fund serves entrepreneurs in rural Arkansas. The Coalition for Women's Economic Development extends credit to African Americans and Mexican Americans in south-central Los Angeles. The Lakota fund, based in South Dakota, helps Native Americans. Working Capital provides loans to inner-city Boston residents. All are helping to eradicate poverty at the grassroots level and provide entrepreneurial opportunities to the poor. As Professor Yunus observed "These millions of small people with their millions of small pursuits can add up to create the biggest development wonder" ("Grameen Bank", n.d.)

Additional Information Sources on the Internet

- Gramèen Bank Information: **http://www.soc.titech.ac.jp/titsoc/higuchi-lab/icm/grameen-info.html**

Part of the Informal Credit Homepage, this site introduces the Grameen Bank and its replications. Statements of purpose, profiles of Muhammad Yunus, articles from around the world, case studies, and a bibliography are featured.

- Grameen Bank Support Group / Australia: **http:www.rdc.com.au/grameen/AustSupp.html**

The Grameen Bank Support Group exists to support the Grameen Bank in Bangladesh and its replications throughout the world by making it known to the public, m `edia, and policy makers. Membership is open to all.

- Microcredit Summit: **http://www.microcreditsummit.org/**

The Microcredit Summit was held in Washington, D.C. on February 2-4, 1997. It launched a nine-year campaign to offer credit to 100 million of the world's poorest families. Governmental agencies, educational institutions, philanthropic groups, United Nations agencies, religious groups, financial institutions, and other corporations participated. Reports on progress toward their goal will be posted on this Web site.

- Micro Enterprise Programs Discussion List: **micro enterprise@listserv.aol.com**

A forum for discussion of programs that assist micro entrepreneurs. To subscribe, send the e-mail message "sub MICROENTERPRISE your name" to listserv@listserv.aol.com.

- Micro Enterprise Innovation Project (MIP): **http://www.mip.org/**

Funded by the United States Agency for International Development, the MIP aims to provide microentrpreneurs with greater access to financial services and technical assistance. They perform research and provide grants to organizations that aid micro enterprise.

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